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SIPDIS

DEPT FOR NEA/ELA
TREASURY FOR BRYAN BALIN AND FRANCISCO PARODI
COMMERCE FOR TOM SAMS AND NATE MASON

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [EINV](#) [EG](#)

SUBJECT: FINANCIAL TURMOIL REACHES THE NILE: EGYPT'S STOCK
MARKET SINKS

¶1. (U) Summary: Egypt's benchmark stock index has fallen 22% in the last two days to reach multi-year lows. Traders and analysts have at long last begun to worry that global economic turmoil will hurt the Egyptian economy more than originally thought. Despite having well-capitalized banks and limited exposure to mortgages and derivative investments, a global slowdown will take a bite out of Egypt's recent high levels of growth. End Summary.

¶2. (U) On the heels of global equity market turmoil, the Egyptian stock market's benchmark CASE 30 index has fallen 22% in the last two days to 5471. The current levels represent a multi-year low and an astonishing 54% drop over the past five months from a historic high of 11936 on May 5.

¶3. (U) On Tuesday, the first trading day after the extended week-long Eid al-Fitr and Armed Forces Day holiday, the market fell 16% almost immediately and maintained that level throughout the trading session. On Tuesday, after early losses of nearly 14%, the market recovered somewhat to end with just over a 7% loss for the day.

¶4. (U) Local market analysts, who have insisted that the Egyptian economy is somewhat insulated from the global credit crisis, attributed the losses to a number of factors ranging from built up pressures from the markets being closed last week to actions by the government to remove corporate tax exemptions and fuel subsidies from companies operating in duty-free zones. Several analysts have reiterated that the Egyptian economy is strong and is still on track for continued high GDP growth.

¶5. (U) Comment: While it is true that Egyptian banks have plenty of liquidity and the country has only a tiny mortgage market, it appears to us that the fall in Egypt's equity market is indicative of Egypt's strong ties to global markets and the world economy. Above and beyond the volatility in equity markets, we expect that the next 12 months will show evidence of the impact on Egypt of lower growth across the globe. Slowdowns in foreign tourism, lower Suez canal revenues and lower than forecast FDI (particularly from GCC investors) have some economists reducing GDP growth estimates to the 5-6% range down from earlier forecasts of 6-7%.

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